

10 September 2021



## Events Round-Up

NZ: Manufacturing sales volume (q/q%), Q2: -0.1 vs. 0.6 prev.

CH: CPI (y/y%), Aug: 0.8 vs. 1 exp.

CH: PPI (y/y%), Aug: 9.5 vs. 9 exp.

EC: ECB deposit facility rate (%), Sep: -0.5 vs. -0.5 exp.

US: Initial jobless claims (k), Sep 4<sup>th</sup>: 310 vs. 335 exp.

## Good Morning

Global rates have dropped overnight, with 10-year US and German rates down by around 4bps. The ECB confirmed it would reduce its bond buying pace from next month, but the market was seemingly braced for more hawkish guidance. The USD has weakened overnight, with the EUR lagging most other currencies after the ECB meeting. The NZD is back above 0.71 with market now pricing a small chance of a 50bp OCR hike at the RBNZ's October meeting.

As expected, the ECB announced it would reduce its QE bond buying next quarter, from €80b per month to a "moderately lower pace", with ECB President Lagarde framing the decision around an "increasingly advanced" economic rebound amidst higher vaccination rates and better market conditions (read: lower bond yields and a lower EUR exchange rate than earlier in the year). Lagarde didn't put an exact figure on the new monthly bond buying pace but Reuters reported it will be a still hefty €60b-€70b per month pace, giving the ECB some flexibility to adjust to changing market conditions.

Lagarde was at pains to emphasise that this was not a 'tapering', in the sense that the ECB does not intend to continue reducing purchases all the way to zero, but rather a "recalibration" over the next three months. The ECB's Pandemic bond buying programme is due to end in March, with Lagarde flagging the December meeting as the one at which the Governing Council will decide how to transition from this programme to the ECB's other bond buying programme (the Asset Purchase Programme). Analysts expect the Asset Purchase Programme, which is currently running at €20b per month, will be expanded when the Pandemic bond buying programme comes to an end, to smooth the adjustment for the market.

Lagarde's description of the economic outlook was cautiously optimistic, describing the risks as "broadly

balanced" but saying the economy was "not out of the woods". The ECB revised its inflation forecasts higher, but its 2023 forecast of 1.5% y/y is still well below its 2% target, so rate hikes remain a distant prospect.

Despite the ECB broadly delivering on economists' expectations for QE, the market took the ECB meeting dovishly, with the 10-year German rate falling 4bps, to -0.36%, and the 10-year Italian rate, which is more sensitive to the ECB's bond buying, down 8bps, to 0.67%. Against a weaker USD backdrop, the EUR has underperformed, up just +0.1% to 1.1830. The market reaction suggests investors may have been pricing the risk of the ECB communicating a clearer 'tapering' path.

In the US, the 10-year rate is 4bps lower overnight, to 1.30%, with around half that move coming in the wake of the ECB meeting and the other half after a very strong 30-year US Treasury bond auction. Both the 10 and 30-year bond auctions this week have come around 2bps below secondary market levels at the time of issue, indicative of strong investor demand, despite what are extremely low yield levels (and high inflation) on a historical basis.

The ECB meeting hasn't provided much of a boost to broader risk appetite, and equity markets are flat-to-slightly lower overnight (S&P500 -0.4%, EuroStoxx -0.1%, NASDAQ flat).

As mentioned earlier, the USD is weaker over the past 24 hours (BBDXY -0.2%) despite slightly more cautious risk sentiment. The JPY and Swiss franc top the currency leader board, both with gains of 0.5%, while the AUD (+0.05%) and NZD (+0.15%) have underperformed, alongside the EUR. The NZD is trading this morning just above the 0.71 mark while the NZD/AUD cross continues to grind higher and, at around 0.9650, is set for its highest close in over 12 months.

Commodities have been mixed, with oil prices lower (Brent -2% to \$71/barrel) but base metals higher. On oil, China announced it had sold oil from its strategic reserves, suggesting in its statement that it may continue to do so to "better stabilize domestic market supply and demand." Chinese PPI inflation was a higher than expected 9.5% annual rate in August, mainly due to higher commodity prices, and policymakers are now attempting to dampen those price pressures. China has had some limited success in restraining copper prices, which it also publicly sold from its strategic reserves earlier this year. Copper was 1.5%

higher overnight, although it remains some 10% off its highs set in May, while Aluminum hit a new 13-year high and nickel a 7-year high overnight.

In other news, Dallas Fed President Kaplan reiterated his hawkish stance yesterday, saying the disappointing nonfarm payrolls jobs figure hadn't changed his view that the Fed should announce tapering this month and commence "shortly thereafter." Kaplan's argument is a sensible one, that QE won't do much to fix the supply constraints that are hampering the economy at present with inflation risks also to the upside, but his views are unlikely to gain much traction among the core of the FOMC. The market doesn't expect a tapering announcement until November, at the earliest.

Domestically, near-term OCR expectations continue to inch higher, with October now priced just above 0.50%, implying the market sees a (slightly) greater chance of a 50bps OCR increase next month than an on-hold decision. The drift higher in October pricing this week has mirrored the decline in new Covid-19 cases, which fell to 13 yesterday. Further out the curve, there was a 4bp decline in the 10-year bond yield, to 1.98%, following a well-received government bond tender.

Next week's NZ Q2 GDP release is unlikely to be market moving but, for the record, yesterday we nudged up our estimate to 1.1% after the release of more partial indicators. This would be well above the RBNZ's August MPS forecast of 0.6%, although the subsequent nationwide lockdown means the Q2 data will have less relevance for the market this time.

It should be a quiet session ahead with no top-tier economic data released.

[nick.smyth@bnz.co.nz](mailto:nick.smyth@bnz.co.nz)

## Coming Up

		Period	Cons.	Prev.	NZT
NZ	Card Spending Total (m/m%)	Aug		0.9	10:45
UK	Monthly GDP (m/m%)	Jul	0.5	1	18:00
UK	Industrial Production (m/m%)	Jul	0.4	-0.7	18:00
CA	Unemployment Rate (%)	Aug	7.3	7.5	00:30
US	PPI Ex Food and Energy (y/y%)	Aug	6.6	6.2	00:30

Source: Bloomberg, BNZ

Foreign Exchange								Equities				Commodities**		
Indicative overnight ranges (*)				Other FX				Major Indices				Price		
	Last	% Day	Low	High		Last	% Day			Last	% Day	Net Day		
NZD	0.7112	+0.2	0.7093	0.7134	CHF	0.9169	-0.5							
AUD	0.7370	+0.1	0.7357	0.7394	SEK	8.607	-0.3							
EUR	1.1829	+0.1	1.1805	1.1841	NOK	8.675	-0.4							
GBP	1.3840	+0.5	1.3764	1.3863	HKD	7.777	+0.0							
JPY	109.70	-0.5	109.62	110.09	CNY	6.455	-0.1							
CAD	1.2648	-0.3			SGD	1.343	-0.2							
NZD/AUD	0.9650	+0.1			IDR	14,253	+0.0							
NZD/EUR	0.6012	+0.1			THB	32.70	-0.2							
NZD/GBP	0.5139	-0.3			KRW	1,170	+0.3							
NZD/JPY	78.02	-0.3			TWD	27.68	-0.2							
NZD/CAD	0.8995	-0.2			PHP	49.93	-0.4							
NZ TWI	75.40	+0.1												
<b>Interest Rates</b>								<b>NZ Government Bonds</b>				<b>NZ Swap Yields</b>		
<b>Rates</b>		<b>Swap Yields</b>			<b>Benchmark 10 Yr Bonds</b>			<b>Last</b>			<b>Last</b>			
	Cash	3Mth	2 Yr	10 Yr		Last	Net Day							
USD	0.25	0.12	0.31	1.33	USD	1.30	-0.04	NZGB 5 1/2 04/15/23	1.04	0.00	1 year	1.05	0.01	
AUD	0.10	0.01	0.23	1.38	AUD	1.27	-0.03	NZGB 0 1/2 05/15/26	1.55	-0.03	2 year	1.38	0.00	
NZD	0.25	0.53	1.38	2.06	NZD	1.89	-0.04	NZGB 0 1/4 05/15/28	1.72	-0.04	5 year	1.77	-0.01	
EUR	0.00	0.06	-0.47	0.01	GER	-0.36	-0.04	NZGB 1 1/2 05/15/31	1.89	-0.03	7 year	1.90	-0.01	
GBP	0.10	0.06	0.52	0.92	GBP	0.74	-0.01	NZGB 2 05/15/32	1.98	-0.04	10 year	2.06	-0.01	
JPY	0.00	-0.09	-0.01	0.08	JPY	0.04	-0.00	NZGB 2 3/4 04/15/37	2.36	-0.05	15 year	2.29	-0.03	
CAD	0.25	0.45	0.79	1.67	CAD	1.18	-0.03	NZGB 1 3/4 05/15/41	2.64	-0.05				

\* These are indicative ranges from 5pm NZT; please confirm rates with your BNZ dealer

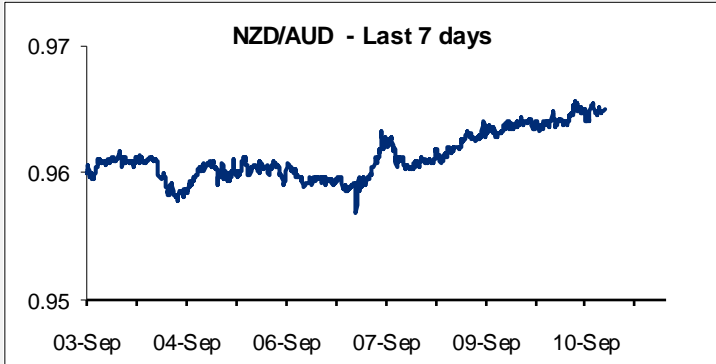
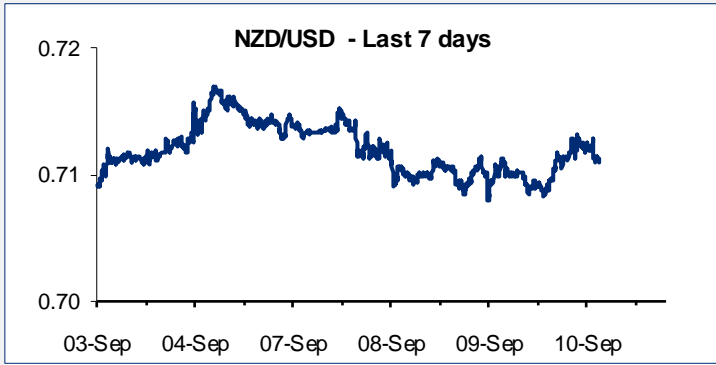
\*\* All near futures contracts, except CRB. Metals prices are CME.

Rates are as of: NZT 06:49

Source: Bloomberg

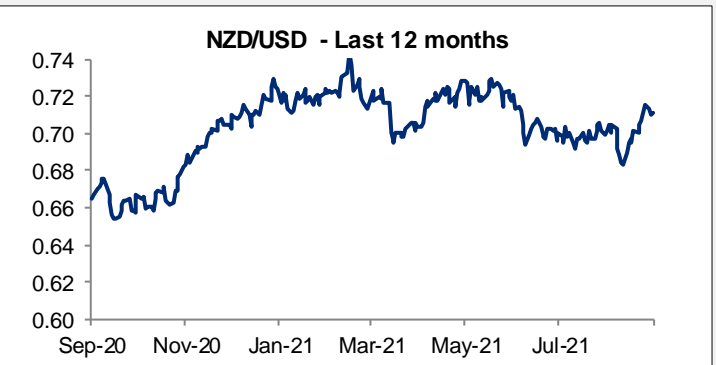
**NZD exchange rates**

10/09/2021	6:49 a.m.	Prev. NY close
USD	0.7112	0.7099
GBP	0.5139	0.5155
AUD	0.9650	0.9639
EUR	0.6012	0.6008
JPY	78.02	78.27
CAD	0.8995	0.9009
CHF	0.6521	0.6543
DKK	4.4707	4.4675
FJD	1.4767	1.4780
HKD	5.5311	5.5200
INR	52.27	52.25
NOK	6.1693	6.1853
PKR	118.97	118.86
PHP	35.51	35.58
PGK	2.4954	2.4891
SEK	6.1209	6.1269
SGD	0.9549	0.9553
CNY	4.5911	4.5872
THB	23.26	23.28
TOP	1.5794	1.5892
VUV	78.67	78.27
WST	1.8183	1.8059
XPF	71.89	71.76
ZAR	10.1015	10.0731



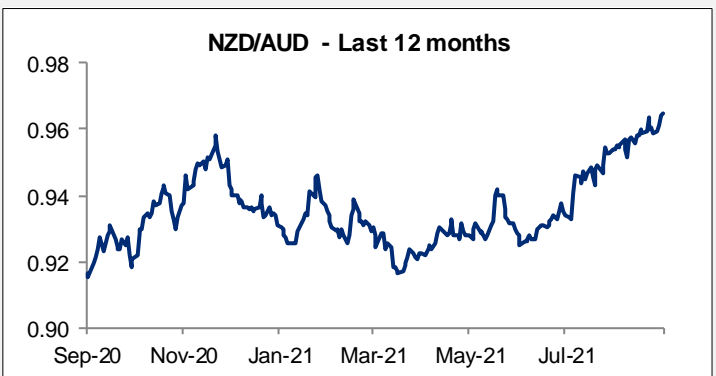
**NZD/USD Forward Points**

	BNZ buys NZD	BNZ sells NZD
1 Month	-0.17	0.17
3 Months	-4.71	-4.20
6 Months	-15.90	-14.90
9 Months	-34.29	-32.64
1 Year	-56.81	-54.81



**NZD/AUD Forward points**

	BNZ buys NZD	BNZ Sells NZD
1 Month	-1.84	-1.18
3 Months	-10.51	-9.44
6 Months	-31.07	-28.94
9 Months	-58.95	-55.44
1 Year	-90.50	-85.80



## Contact Details

### BNZ Research

**Stephen Toplis**  
Head of Research  
+64 4 474 6905

**Craig Ebert**  
Senior Economist  
+64 4 474 6799

**Doug Steel**  
Senior Economist  
+64 4 474 6923

**Jason Wong**  
Senior Markets Strategist  
+64 4 924 7652

**Nick Smyth**  
Senior Interest Rates Strategist  
+64 4 924 7653

### Main Offices

#### Wellington

Level 4, Spark Central  
42-52 Willis Street  
Private Bag 39806  
Wellington Mail Centre  
Lower Hutt 5045  
New Zealand  
Toll Free: 0800 283 269

#### Auckland

80 Queen Street  
Private Bag 92208  
Auckland 1142  
New Zealand  
Toll Free: 0800 283 269

#### Christchurch

111 Cashel Street  
Christchurch 8011  
New Zealand  
Toll Free: 0800 854 854

### National Australia Bank

**Ivan Colhoun**  
Global Head of Research  
+61 2 9237 1836

**Alan Oster**  
Group Chief Economist  
+61 3 8634 2927

**Ray Attrill**  
Head of FX Strategy  
+61 2 9237 1848

**Skye Masters**  
Head of Fixed Income Research  
+61 2 9295 1196

#### Wellington

Foreign Exchange +800 642 222  
Fixed Income/Derivatives +800 283 269

#### New York

Foreign Exchange +1 212 916 9631  
Fixed Income/Derivatives +1 212 916 9677

#### Sydney

Foreign Exchange +61 2 9295 1100  
Fixed Income/Derivatives +61 2 9295 1166

#### Hong Kong

Foreign Exchange +85 2 2526 5891  
Fixed Income/Derivatives +85 2 2526 5891

#### London

Foreign Exchange +44 20 7796 3091  
Fixed Income/Derivatives +44 20 7796 4761

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